

SAMPLE COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the District feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Any questions concerning single audit requirements should be directed to the District's cognizant or oversight agency which is generally:

United States Department of Education
Office of Inspector General
Office of Audit
Region VII/VIII
P.O. Box 901381
Kansas City, MO 64190-1381
(816) 880-4022

Iowa Department of Education
Budgeting and Finance Team
Grimes Building
400 East 14th Street
Des Moines, IA 50319-0146
(515) 281-4729

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures.

Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
Bureau of the Census
P.O. Box 5000
Jeffersonville, IN 47199-5000

One copy of the audit report should be filed with the Iowa Department of Education regardless of whether the audit was performed in accordance with OMB Circular A-133.

The findings on compliance, items IV-A-04 through IV-J-04, detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported. In accordance with Chapter 11.6(1)(a) of the Code of Iowa, the audit of the District is required to include an audit of certified enrollment and the District's Certified Annual Report. Any variances noted in the certified enrollment are required to be reported to the Department of Management, with a copy to the Iowa Department of Education.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the District. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Beginning with audit reports issued for years ending June 30, 2004, we will be providing internet access to reports issued by CPA firms, to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electronic copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the local government and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in our office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

Sample Community School District

Outline of Major Changes

- A. Added local option sales and services tax revenue bond disclosures and included an audit finding in Part IV of the Schedule of Findings and Questioned Costs for non-compliance with certain revenue bond requirements.
 - B. Revised the Schedule of Expenditures of Federal Awards to include additional federal programs to exceed the new threshold of \$500,000.
 - C. An electronic copy of the audit report, in PDF format, is to be submitted in addition to the required paper copies.
-

Additional Notes

1. If the District has deposits in credit unions at June 30, 2004, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
2. Amendments to the CAR: The Iowa Department of Education has requested recommendations for amendments to the CAR be limited to those which the independent auditor deems to be material error(s) and primarily errors which could have an effect on the District's unspent balance. All other errors should be reviewed with the District and amended by the District through the "Net Auditors Adjustments" line item adjustment to the beginning balance on the subsequent period CAR.

Note: The CAR must be filed with the Iowa Department of Education by September 15, 2004.

3. The Iowa Department of Education is encouraging audit reports be filed electronically, with each report submitted on a separate CD. For more information, contact Jeannie.Ramirez@ed.state.ia.us.
4. Confirmations from the Iowa Department of Education will be available electronically through the web. Also, all correspondence to auditors from the Iowa Department of Education will be done by e-mail. Please send e-mail addresses or updates to Janice.Evans@ed.state.ia.us.
5. Chapter 11.6 (1)(a) requires the audit of a school district to include an audit of the certified enrollment. Procedures to test enrollment are included in the Community School District Audit Program Guide.

The auditor is required to include a comment on certified enrollment in the Schedule of Findings and Questioned Costs, regardless of whether there are any variances or not.

Variances between the amounts on the Iowa Department of Education copy of the certified enrollment and the supporting documentation are to be reported to the Department of Management at the time the audit report is issued. The auditor should discuss any findings with the District prior to reporting the variances. A letter to the Department of Management is not necessary if no variances are noted. A copy of the letter to the Department of Management should be sent to the Iowa Department of Education. Any changes to row 12 (supplementary weighting) require a corrected Form 12 to be submitted to the Iowa Department of Education in addition to the copy of the Department of Management letter.

Following are examples of audit report comments and reporting to the Department of Management.

Additional Notes (continued)

SAMPLE REPORT COMMENTS ON CERTIFIED ENROLLMENT

No Variances Noted:

Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

Variances Noted:

Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated. The District's certified enrollment count included 18 non-resident students in line 1 which were also included in line 8 as open enrolled in nonresident students. This resulted in overstating the total actual enrollment at line 7 by 18 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

Additional Notes (continued)

**SAMPLE LETTER TO THE DEPARTMENT OF MANAGEMENT
ON CERTIFIED ENROLLMENT**

(Date)

Department of Management
State Capitol Building
Des Moines, Iowa 50319

In connection with our audit of Sample Community School District, we examined documentation maintained by the District to support the basic enrollment certified to the Iowa Department of Education for September, 2003. The following variances were noted:

<u>Line No.</u>	<u>Certified Number</u>	<u>Audited Number</u>	<u>Resident District</u>	<u>For Line 8 or 9 Variances</u>	<u>Remarks</u>
				<u>Number Overstated/ (Understated)</u>	

Sincerely,

(CPA Signature)

cc: Susan McCurdy
Iowa Department of Education

Additional Notes (continued)

6. Also attached are a sample Corrective Action Plan for Federal Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
7. The attached sample Corrective Action Plan refers the user to the District's response to the auditor's comment for the detailed corrective action planned. If the District's response to the auditor's comment does not include the details of its planned corrective action, this information should be included in the Corrective Action Plan itself.
8. Income surtax budgeted for the fiscal year ended June 30, 2004 will not be received by Districts until the fiscal year ending June 30, 2005. The District will receive 75% of the income surtax in December 2004 with the remaining 25% to be received in February 2005. In accordance with GASB Statement No. 33, income surtax should be recorded as a receivable and included in deferred revenue on a modified accrual basis. For the government-wide financial statements, the income surtax revenue should be recognized. The amount of the income surtax receivable for the year ended June 30, 2004 may be obtained from the District's 2004 aid and levy worksheet.

For the fiscal year ended June 30, 2004, the receivable should be included in the audited financial statements but not the District's CAR. The Iowa Department of Education will be revising the CAR for the year ending June 30, 2005 to include account numbers for recording income surtax receivable and deferred revenue.

9. The Iowa Department of Education recommends Districts implementing GASB 34 not make changes to School Nutrition Fund capitalization thresholds or useful lives since the Federal guidelines have not been changed. The Certified Annual Report will continue with the \$300-\$500 capitalization threshold and 12 year useful lives (5 years for computers and automobiles) for School Nutrition Fund capital assets.
 10. ISCAP 2004-05A interest rates will be available at the end of June 2004.
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Additional Notes (continued)**Sample A**

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year ended June 30, 2004

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-04	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tom Claim, Sample Entity Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 1, 2004.
III-B-04	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX	October 30, 2004
III-C-04	Financial Reporting	As reported in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2004 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.

Additional Notes (continued)**Sample B**

Sample Entity

Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2004

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-C-01 III-B-02 III-B-03	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding nor has a management decision been issued on their part.
III-A-02 III-A-03	Segregation of Duties over Federal Revenues	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
III-C-02 III-C-03	Fixed Assets	Corrective action taken.	
III-D-03	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.



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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State David A. Vaudt today released an audit report on Sample Community School District in Anywhere, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues totaled \$_____ for the year ended June 30, 2004, a(n) __ percent increase (decrease) from the prior year. Revenues included \$_____ in local tax, charges for service of \$_____ operating grants, contributions and restricted interest of \$_____, unrestricted interest of \$_____ and other general revenues of \$_____.

Expenses for District operations totaled \$_____, a(n) __ percent increase (decrease) from the prior year. Expenses included \$_____ for ____a____, \$_____ for ____b____ and \$_____ for ____c____. (a, b, c – functions with the three highest expense totals.)

A copy of the audit report is available for review in the Office of Auditor of State and the District Secretary's office.

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SAMPLE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-16
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 18-19
Statement of Activities	B 20-21
Governmental Fund Financial Statements:	
Balance Sheet	C 22
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D 23
Statement of Revenues, Expenditures and Changes in Fund Balances	E 24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F 25
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 26
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 27
Statement of Cash Flows	I 28-29
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	J 30
Statement of Changes in Fiduciary Net Assets	K 31
Notes to Financial Statements	32-44
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund	46-47
Budget to GAAP Reconciliation	48
Notes to Required Supplementary Information – Budgetary Reporting	49
	<u>Schedule</u>
Other Supplementary Information:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 53
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 54
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 55-57
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	4 58
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5 59
Schedule of Expenditures of Federal Awards	6 60
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	61-62
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	65-66
Schedule of Findings and Questioned Costs	67-71
Staff	72

Sample Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2003 Election)		
Douglas Stahley	President	2005
Debra Givens	Vice President	2004
John Smith	Board Member	2003
Tom Rivers	Board Member	2003
Denise Schmitz	Board Member	2005
Board of Education		
(After September 2003 Election)		
Denise Schmitz	President	2005
Tom Rivers	Vice President	2006
Debra Givens	Board Member	2004
Douglas Stahley	Board Member	2005
David Riley	Board Member	2006
School Officials		
Quentin Jones	Superintendent	2004
Maxine Thorn	District Secretary/Treasurer and Business Manager	Indefinite
Jack Lawful	Attorney	Indefinite

Sample Community School District



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board of Education of
Sample Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Community School District, Anywhere Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Sample Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of Sample Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sample Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$12,206,834 in fiscal 2003 to \$13,131,390 in fiscal 2004, while General Fund expenditures increased from \$12,057,156 in fiscal 2003 to \$13,228,379 in fiscal 2004. The District's General Fund balance decreased from \$365,242 in fiscal 2003 to \$109,541 in fiscal 2004, a 70% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$91,659 in fiscal 2003 to \$79,486 in fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sample Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Sample Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Sample Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

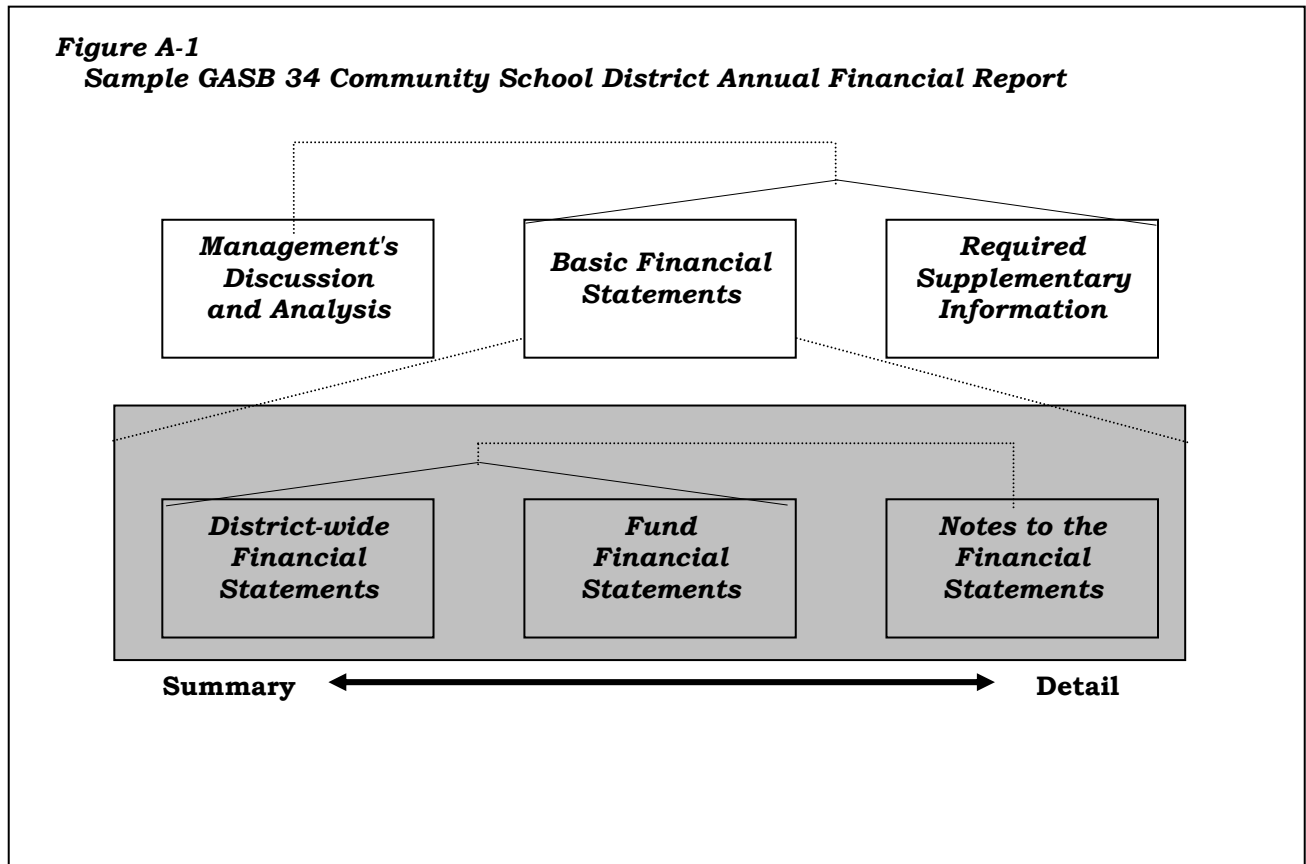


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 10,841	9,747	\$ 43	72	\$ 10,884	9,819	10.8%
Capital assets	12,576	10,699	70	84	12,646	10,783	17.3%
Total assets	23,417	20,446	113	156	23,530	20,602	14.2%
Long-term liabilities	9,948	7,372	-	-	9,948	7,372	34.9%
Other liabilities	9,316	9,257	13	66	9,329	9,323	0.1%
Total liabilities	19,264	16,629	13	66	19,277	16,695	15.5%
Net assets:							
Invested in capital assets, net of related debt	3,720	3,425	70	84	3,790	3,509	8.0%
Restricted	353	247	-	-	353	247	42.9%
Unrestricted	80	145	30	6	110	151	-27.2%
Total net assets	\$ 4,153	3,817	\$ 100	90	\$ 4,253	3,907	8.9%

The District's combined net assets increased by nearly 9%, or approximately \$345,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$106,000, or 43% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$41,000, or 27%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 1,188	460	1,648
Operating grants, contributions and restricted interest	1,432	229	1,661
Capital grants, contributions and restricted interest	42	-	42
General revenues:			
Property tax	4,084	-	4,084
Local option sales and service tax	101	-	101
Unrestricted state grants	7,767	-	7,767
Unrestricted investment earnings	262	2	264
Other	46	-	46
Total revenues	14,922	691	15,613
Program expenses:			
Governmental activities:			
Instruction	9,023	-	9,023
Support services	4,418	-	4,418
Non-instructional programs	53	682	735
Other expenses	1,092	-	1,092
Total expenses	14,586	682	15,268
Change in net assets	\$ 336	9	345

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$14,921,642 and expenses were \$14,585,506. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,023	7,082
Support services	4,418	4,347
Non-instructional programs	53	40
Other expenses	1,092	455
Totals	\$ 14,586	11,924

- The cost financed by users of the District's programs was \$1,187,706.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,432,041.
- The net cost of governmental activities was financed with \$4,184,666 in property and other taxes and \$7,766,571 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$690,615 and expenses were \$681,896. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated for replacement of obsolete kitchen equipment at two elementary buildings in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

As previously noted, Sample Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,585,827, well above last year's ending fund balances of \$529,188. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to approximately \$1 million of unexpended general obligation bond proceeds received in fiscal 2004.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$365,242 to \$109,541, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of \$45,410 in fiscal 2003 to \$79,945 in fiscal 2004. While revenues remained approximately the same, the District substantially reduced spending from the PPEL Fund in order to reduce the prior year deficit and improve the financial condition of the fund.
- The Capital Projects Fund balance increased due to the sale of \$3,200,000 in general obligation and revenue bonds during fiscal 2004. The District ended fiscal 2003 with a deficit of \$58,561 as a result of preliminary project costs. Fiscal 2004 ended with a balance of \$1,083,661, consisting primarily of unexpended bond proceeds which will be expended as the project is completed.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$90,498 at June 30, 2003 to \$99,217 at June 30, 2004, representing an increase of approximately 10%. For fiscal 2004, the District increased meal prices, resulting in the increase in net assets. The District also revamped its school lunch program to provide students with the option of salad and/or pasta bars at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sample Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the elementary building capital project activity.

The District's receipts were \$513,477 less than budgeted receipts, a variance of 3%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and support services functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$12.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 17.3% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$511,679.

The original cost of the District's capital assets was \$16.4 million. Governmental funds account for \$16.2 million, with the remainder of \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,259,622 at June 30, 2004, compared to \$58,561 reported at June 30, 2003. This significant increase resulted from construction activity financed by the issuance of voter approved general obligation bonds and revenue bonds totaling \$3,200,000 in fiscal 2004 for construction of a new elementary school.

Figure A-6
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 611	600	\$ -	-	\$ 611	600	1.8%
Construction in progress	2,260	59	-	-	2,260	59	3730.5%
Buildings	5,640	5,763	-	-	5,640	5,763	-2.1%
Improvements other than buildings	2,158	2,223	-	-	2,158	2,223	-2.9%
Furniture and equipment	1,907	2,054	70	84	1,977	2,138	-7.5%
Totals	\$ 12,576	10,699	\$ 70	84	\$ 12,646	10,783	17.3%

Long-Term Debt

At June 30, 2004, the District had \$9,948,148 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 35% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

In May 2003, the District's voters authorized the issuance of \$2,200,000 in general obligation bonds to pay for construction of a new elementary building. Planning for the project started in fiscal 2003 and the bonds were sold during fiscal 2004. In December 2003, the District issued \$1,000,000 of local option sales and services tax revenue bonds for the same project. The District had total outstanding bonded indebtedness at June 30, 2004 of \$9,560,000.

The District also had total outstanding School Equipment Notes payable from the General Fund or the Physical Plant and Equipment Levy Fund of \$380,000 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

	Total District		Total Change
	June 30,		June 30,
	2004	2003	2003-2004
General obligation bonds	\$ 8,560	6,695	27.9%
Revenue bonds	1,000	-	100.0%
Notes payable	380	579	-34.4%
Early retirement	-	87	-100.0%
Compensated absences	8	10	-20.0%
Totals	\$ 9,948	7,371	35.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Sample County has advised the District that, due to the addition of two new industrial sites and the recent completion of property revaluation assessments, the District's total taxable valuation will increase 5 percent for property tax collected in fiscal 2005.
- Although the District has experienced declining enrollment for the past three years, the District expects a slight increase in enrollment due to a new housing development in progress within the District.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, three buses must be replaced during fiscal 2005 at a cost of \$180,000. To pay for these buses, the District will use a combination of resources from the General Fund and the Physical Plant and Equipment Levy Fund.
- Fiscal 2004 was the last year of a three-year contract with the Sample Education Teacher Association (SETA). The District will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Maxine Thorn, District Secretary/Treasurer and Business Manager, Sample Community School District, 77 Sunset Strip, Anywhere, Iowa, 50000.

Basic Financial Statements

Sample Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 2,467,922	-	2,467,922
Other	2,983,717	31,798	3,015,515
Receivables:			
Property tax:			
Delinquent	73,556	-	73,556
Succeeding year	4,850,000	-	4,850,000
Accounts	13,949	184	14,133
Accrued interest:			
ISCAP	50,617	-	50,617
Other	5,440	-	5,440
Due from other governments	396,007	-	396,007
Inventories	-	10,951	10,951
Capital assets, net of accumulated depreciation	12,576,443	69,673	12,646,116
Total assets	23,417,651	112,606	23,530,257
Liabilities			
Accounts payable	419,963	10,245	430,208
Salaries and benefits payable	1,002,373	3,144	1,005,517
Due to other governments	51,043	-	51,043
Accrued interest payable	89,897	-	89,897
Deferred revenue - succeeding year property tax	4,850,000	-	4,850,000
ISCAP warrants payable	2,886,000	-	2,886,000
ISCAP accrued interest payable	16,858	-	16,858
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	305,000	-	305,000
Revenue bonds payable	110,000	-	110,000
Notes payable	155,000	-	155,000
Compensated absences	8,148	-	8,148
Portion due after one year:			
General obligation bonds payable	8,255,000	-	8,255,000
Revenue bonds payable	890,000	-	890,000
Notes payable	225,000	-	225,000
Total liabilities	19,264,282	13,389	19,277,671

Sample Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	3,720,104	69,673	3,789,777
Restricted for:			
Management levy	12,318	-	12,318
Physical plant and equipment levy	81,453	-	81,453
Other special revenue purposes	259,470	-	259,470
Unrestricted	80,024	29,544	109,568
Total net assets	\$ 4,153,369	99,217	4,252,586

See notes to financial statements.

Exhibit B

Sample Community School District

Statement of Activities

Year ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 5,529,038	448,988	618,244	-
Special instruction	2,216,681	187,876	167,295	-
Other instruction	1,276,891	489,975	28,409	-
	9,022,610	1,126,839	813,948	-
Support services:				
Student services	437,088	-	9,129	-
Instructional staff services	472,009	-	-	-
Administration services	1,762,778	-	1,500	-
Operation and maintenance of plant services	1,256,369	35,298	2,470	-
Transportation services	489,622	12,085	10,393	-
	4,417,866	47,383	23,492	-
Non-instructional programs	53,314	13,484	-	-
Other expenditures:				
Facilities acquisition	3,112	-	-	42,072
Long-term debt interest	378,471	-	7,036	-
AEA flowthrough	587,565	-	587,565	-
Depreciation (unallocated)*	122,568	-	-	-
	1,091,716	-	594,601	42,072
Total governmental activities	14,585,506	1,187,706	1,432,041	42,072
Business type activities:				
Non-instructional programs:				
Food service operations	681,896	459,403	228,957	-
Total	\$ 15,267,402	1,647,109	1,660,998	42,072
General Revenues:				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(4,461,806)	-	(4,461,806)
(1,861,510)	-	(1,861,510)
(758,507)	-	(758,507)
(7,081,823)	-	(7,081,823)
(427,959)	-	(427,959)
(472,009)	-	(472,009)
(1,761,278)	-	(1,761,278)
(1,218,601)	-	(1,218,601)
(467,144)	-	(467,144)
(4,346,991)	-	(4,346,991)
(39,830)	-	(39,830)
38,960	-	38,960
(371,435)	-	(371,435)
-	-	-
(122,568)	-	(122,568)
(455,043)	-	(455,043)
(11,923,687)	-	(11,923,687)
-	6,464	6,464
(11,923,687)	6,464	(11,917,223)
\$ 3,236,511	-	3,236,511
659,656	-	659,656
187,288	-	187,288
101,211	-	101,211
7,766,571	-	7,766,571
262,350	2,255	264,605
46,236	-	46,236
12,259,823	2,255	12,262,078
336,136	8,719	344,855
3,817,233	90,498	3,907,731
\$ 4,153,369	99,217	4,252,586

Exhibit C

Sample Community School District

Balance Sheet
Governmental Funds

June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Assets					
Cash and pooled investments:					
ISCAP	\$ 2,467,922	-	-	-	2,467,922
Other	1,150,813	33,733	1,436,322	362,849	2,983,717
Receivables:					
Property tax:					
Delinquent	53,781	13,190	-	6,585	73,556
Succeeding year	3,423,000	921,000	-	506,000	4,850,000
Accounts	12,518	-	-	1,431	13,949
Accrued interest:					
ISCAP	50,617	-	-	-	50,617
Other	3,963	-	-	1,477	5,440
Due from other funds	12,313	-	-	-	12,313
Due from other governments	396,007	-	-	-	396,007
Total assets	\$ 7,570,934	967,923	1,436,322	878,342	10,853,521
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 60,692	-	352,661	6,610	419,963
Salaries and benefits payable	1,002,195	-	-	178	1,002,373
Due to other governments	51,043	-	-	-	51,043
Due to other funds	-	-	-	12,313	12,313
ISCAP warrants payable	2,886,000	-	-	-	2,886,000
ISCAP accrued interest payable	16,858	-	-	-	16,858
Deferred revenue:					
Succeeding year property tax	3,423,000	921,000	-	506,000	4,850,000
Other	21,605	6,013	-	1,526	29,144
Total liabilities	7,461,393	927,013	352,661	526,627	9,267,694
Fund balances:					
Reserved for debt service	-	40,910	-	-	40,910
Unreserved	109,541	-	1,083,661	351,715	1,544,917
Total fund balances	109,541	40,910	1,083,661	351,715	1,585,827
Total liabilities and fund balances	\$ 7,570,934	967,923	1,436,322	878,342	10,853,521

See notes to financial statements.

Sample Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 22)	\$ 1,585,827
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***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,576,443
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	29,144
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(89,897)
--	----------

Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(9,948,148)
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Net assets of governmental activities (page 19)	<u><u>\$ 4,153,369</u></u>
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See notes to financial statements.

Exhibit E

Sample Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$2,957,083	661,263	101,211	465,461	4,185,018
Tuition	497,718	-	-	-	497,718
Other	456,375	7,036	42,072	511,129	1,016,612
Intermediate sources	20,837	-	-	-	20,837
State sources	8,905,749	1,424	-	1,008	8,908,181
Federal sources	293,628	-	-	-	293,628
Total revenues	13,131,390	669,723	143,283	977,598	14,921,994
Expenditures:					
Current:					
Instruction:					
Regular instruction	5,365,383	-	-	54,679	5,420,062
Special instruction	2,225,277	-	-	6,620	2,231,897
Other instruction	811,828	-	-	460,991	1,272,819
	8,402,488	-	-	522,290	8,924,778
Support services:					
Student services	437,088	-	-	-	437,088
Instructional staff services	468,960	-	-	-	468,960
Administration services	1,621,570	-	-	212,241	1,833,811
Operation and maintenance of plant services	1,218,652	-	-	6,589	1,225,241
Transportation services	438,742	-	-	-	438,742
	4,185,012	-	-	218,830	4,403,842
Non-instructional programs	53,314	-	-	-	53,314
Other expenditures:					
Facilities acquisition	-	-	2,201,061	3,112	2,204,173
Long-term debt:					
Principal	-	534,507	-	-	534,507
Interest and fiscal charges	-	357,176	-	-	357,176
AEA flowthrough	587,565	-	-	-	587,565
	587,565	891,683	2,201,061	3,112	3,683,421
Total expenditures	13,228,379	891,683	2,201,061	744,232	17,065,355
Excess (deficiency) of revenues over (under) expenditures	(96,989)	(221,960)	(2,057,778)	233,366	(2,143,361)
Other financing sources (uses):					
Operating transfers in	-	226,470	-	440	226,910
Operating transfers out	(158,712)	-	-	(68,198)	(226,910)
General obligation bonds issued	-	-	2,200,000	-	2,200,000
Revenue bonds issued	-	-	1,000,000	-	1,000,000
Total other financing sources (uses)	(158,712)	226,470	3,200,000	(67,758)	3,200,000
Net change in fund balances	(255,701)	4,510	1,142,222	165,608	1,056,639
Fund balances beginning of year, as restated (note 12)	365,242	36,400	(58,561)	186,107	529,188
Fund balances end of year	\$ 109,541	40,910	1,083,661	351,715	1,585,827

See notes to financial statements.

Sample Community School District

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (page 24)	\$ 1,056,639
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**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 2,374,305	
Depreciation expense	(496,618)	1,877,687

Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds.

(352)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(3,200,000)	
Repaid	534,507	(2,665,493)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(21,295)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	86,819	
Compensated absences	2,131	88,950

Change in net assets of governmental activities (page 21)	\$ 336,136
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See notes to financial statements.

Sample Community School District

Statement of Net Assets
Proprietary Fund

June 30, 2004

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 31,798
Accounts receivable	184
Inventories	10,951
Capital assets, net of accumulated depreciation	69,673
Total assets	<u>112,606</u>
Liabilities	
Accounts payable	10,245
Salaries and benefits payable	3,144
Total liabilities	<u>13,389</u>
Net Assets	
Invested in capital assets, net of related debt	69,673
Unrestricted	29,544
Total net assets	<u>\$ 99,217</u>

See notes to financial statements.

Sample Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

	School Nutrition
Operating revenues:	
Local sources:	
Charges for service	\$ 459,403
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	159,383
Benefits	51,352
Purchased services	73,758
Supplies	382,342
Depreciation	15,061
Total operating expenses	681,896
Operating loss	(222,493)
Non-operating revenues:	
State sources	7,989
Federal sources	220,968
Interest income	2,255
Total non-operating revenues	231,212
Change in net assets	8,719
Net assets beginning of year	90,498
Net assets end of year	\$ 99,217

See notes to financial statements.

Exhibit I

Sample Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 462,317
Cash paid to employees for services	(159,876)
Cash paid to suppliers for goods or services	(530,738)
Net cash used by operating activities	<u>(228,297)</u>
Cash flows from non-capital financing activities:	
State grants received	7,989
Federal grants received	195,324
Net cash provided by non-capital financing activities	<u>203,313</u>
Cash flows from capital and related financing activities:	
Sale of capital assets	1,200
Acquisition of capital assets	(1,565)
Net cash used by capital and related financing activities	<u>(365)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,255</u>
Net decrease in cash and cash equivalents	(23,094)
Cash and cash equivalents beginning of year	<u>54,892</u>
Cash and cash equivalents end of year	<u><u>\$ 31,798</u></u>

Sample Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	School Nutrition
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (222,493)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	28,500
Depreciation	15,061
Decrease in inventories	1,055
Decrease in accounts receivable	1,859
(Decrease) in accounts payable	(1,472)
(Decrease) in salaries and benefits payable	(512)
(Decrease) in due to other governments	(50,295)
Net cash used by operating activities	<u>\$ (228,297)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$25,644 of federal commodities.

See notes to financial statements.

Sample Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarship</u>	
Assets		
Cash and pooled investments	\$ 36,109	44,343
Accrued interest receivable	167	-
Due from other governments	-	43,287
	<u> </u>	<u> </u>
Total assets	<u>36,276</u>	<u>87,630</u>
Liabilities		
Accounts payable	-	63
Due to other governments	-	87,567
	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>87,630</u>
Net assets		
Reserved for scholarships	<u>\$ 36,276</u>	<u>-</u>

See notes to financial statements.

Sample Community School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust	Scholarship
Additions:		
Local sources:		
Gifts and contributions	\$ 1,250	
Interest income	2,198	
Total additions	3,448	
Deductions:		
Support services:		
Scholarships awarded		3,350
Change in net assets	98	
Net assets beginning of year	36,178	
Net assets end of year	\$ 36,276	

See notes to financial statements.

Sample Community School District

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Sample Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Anywhere, Iowa, and the predominate agricultural territory in Sample County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Sample Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Sample County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction and support services functional areas exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$908,824 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Physical Plant and Equipment Levy	<u>\$ 12,313</u>

The Physical Plant and Equipment Levy Fund is repaying the General Fund for property tax that was incorrectly recorded in the prior year. The balance will be repaid by June 30, 2005.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Student Activity	General	\$ 440
Debt Service	General	158,272
	Special Revenue: Physical Plant and Equipment Levy	<u>68,198</u>
Total		<u>\$226,910</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04A	6/20/03	6/18/04	\$ -	33,075	-	-
2003-04B	1/30/04	1/28/05	504,963	15,282	926,000	14,844
2004-05A	6/30/04	6/30/05	1,962,959	2,260	1,960,000	2,014
Total			\$ 2,467,922	50,617	2,886,000	16,858

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be

used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ -	1,555,000	1,555,000	-
2003-04B	-	420,000	-	420,000
Total	\$ -	1,975,000	1,555,000	420,000

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	2.603%
2003-04B	2.000	1.392
2004-05A		

(6) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 600,250	10,800	-	611,050
Construction in progress	58,561	2,201,061	-	2,259,622
Total capital assets not being depreciated	658,811	2,211,861	-	2,870,672
Capital assets being depreciated:				
Buildings	8,316,184	-	-	8,316,184
Improvements other than buildings	2,322,793	-	-	2,322,793
Furniture and equipment	2,927,365	162,444	(336,623)	2,753,186
Total capital assets being depreciated	13,566,342	162,444	(336,623)	13,392,163
Less accumulated depreciation for:				
Buildings	2,553,315	122,568	-	2,675,883
Improvements other than buildings	99,400	65,456	-	164,856
Furniture and equipment	873,682	308,594	(336,623)	845,653
Total accumulated depreciation	3,526,397	496,618	(336,623)	3,686,392
Total capital assets being depreciated, net	10,039,945	(334,174)	-	9,705,771
Governmental activities capital assets, net	\$ 10,698,756	1,877,687	-	12,576,443

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 197,176	1,565	(18,791)	179,950
Less accumulated depreciation	112,807	15,061	(17,591)	110,277
Business type activities capital assets, net	\$ 84,369	(13,496)	(1,200)	69,673

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 238,253
Special	13,473
Other	12,814

Support services:

Instructional staff	3,049
Administration	1,577
Operation and maintenance of plant	54,004
Transportation	50,880

374,050

Unallocated	122,568
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Total depreciation expense - governmental activities	\$ 496,618
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Business type activities:

Food service operations	\$ 15,061
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(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,695,000	2,200,000	335,000	8,560,000	305,000
Revenue bonds	-	1,000,000	-	1,000,000	110,000
Notes payable	579,507	-	199,507	380,000	155,000
Early retirement	86,819	-	86,819	-	-
Compensated absences	10,279	45,413	47,544	8,148	8,148
Total	\$ 7,371,605	3,245,413	668,870	9,948,148	578,148

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District, except for administrators who must have completed ten years. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to a cash payment equal to the employee's accumulated sick leave plus 40% of the employee's annual salary. Early retirement expenditures for the year ended June 30, 2004 totaled \$86,819.

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2000			Bond Issue of April 1, 2001 Series A		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2005	4.70%	\$ 10,000	201,680	4.10%	\$ 30,000	94,655
2006	4.80	10,000	201,210	4.20	60,000	93,425
2007	4.90	15,000	200,730	4.25	305,000	90,905
2008	5.00	5,000	199,995	4.30	320,000	77,942
2009	5.10	5,000	199,745	4.35	335,000	64,183
2010-2014	5.15-5.35	795,000	975,165	4.40-4.55	1,110,000	101,565
2015-2019	5.40-5.50	2,335,000	548,430	-	-	-
2020-2024	5.50	550,000	30,250	-	-	-
Total		\$3,725,000	2,557,205		\$2,160,000	522,675

Year Ending June 30,	Bond Issue of April 1, 2001 Series B			Bond Issue of Oct 1, 2003			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2005	4.10%	\$ 245,000	19,705	4.375%	\$ 20,000	115,343	\$ 305,000	431,383	736,383
2006	4.20	230,000	9,660	4.375	55,000	93,643	355,000	397,938	752,938
2007	-	-	-	4.375	60,000	91,718	380,000	383,353	763,353
2008	-	-	-	4.375	70,000	89,618	395,000	367,555	762,555
2009	-	-	-	4.375	80,000	87,168	420,000	351,096	771,096
2010-2014	-	-	-	4.50	485,000	386,331	2,390,000	1,463,061	3,853,061
2015-2019	-	-	-	4.50-4.75	635,000	271,563	2,970,000	819,993	3,789,993
2020-2024	-	-	-	4.80-5.00	795,000	113,835	1,345,000	144,085	1,489,085
Total		\$ 475,000	29,365		\$ 2,200,000	1,249,219	\$8,560,000	4,358,464	12,918,464

Revenue Bonds Payable

Details of the District's June 30, 2004 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Dec 1, 2003			
	Interest Rates	Principal	Interest	Total
2005	4.00%	\$ 110,000	53,200	163,200
2006	4.00	110,000	35,600	145,600
2007	4.00	115,000	31,200	146,200
2008	4.00	120,000	26,600	146,600
2009	4.00	125,000	21,800	146,800
2010-2012	4.00	420,000	34,000	454,000
Total		\$1,000,000	202,400	1,202,400

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$100,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying

principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.

- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District did not comply with all of the provisions during the year ended June 30, 2004. The required Reserve Account was not established by the District and no transfers were made to the Sinking Account.

Notes Payable

During the years ended June 30, 2002 and 2003, the District issued School Equipment Notes to provide funds for the purchase of equipment. The notes bear interest at 5% to 5.75% per annum and are payable from the General Fund or the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the District's indebtedness under the agreements in effect at June 30, 2004 are as follows:

Year Ending June 30,	January 11, 2002				June 30, 2003		Total	
	Series 2002A		Series 2002B					
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 55,000	3,875	15,000	375	85,000	14,950	155,000	19,200
2006	50,000	1,250	-	-	85,000	10,063	135,000	11,313
2007	-	-	-	-	90,000	5,175	90,000	5,175
Total	\$ 105,000	5,125	15,000	375	260,000	30,188	380,000	35,688

During the year ended June 30, 2004, the District made principal and interest payments totaling \$226,469 under the agreements.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$468,264, \$453,627 and \$411,511, respectively, equal to the required contributions for each year.

(9) Risk Management

Sample Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$587,565 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitment

The District has entered into a contract totaling \$3,192,384 for the construction of a new school and a remodeling project. As of June 30, 2004, costs of \$1,965,411 had been incurred against the contract. The balance of \$1,226,973 remaining at June 30, 2004 will be paid as work on the project progresses.

(12) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District’s programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Debt Service	Capital Projects	Nonmajor Special Revenue	
Net assets June 30, 2003, as previously reported	\$ 354,963	36,400	(58,561)	106,246	439,048
GASB Interpretation 6 adjustments	10,279	-	-	79,861	90,140
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 365,242</u>	<u>36,400</u>	<u>(58,561)</u>	<u>186,107</u>	<u>529,188</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$3,526,397					10,698,756
Long-term liabilities:					
Bonds and notes				7,274,507	
Early retirement				86,819	
Compensated absences				10,279	(7,371,605)
Accrued interest payable					(68,602)
Deferred revenue					29,496
Net assets July 1, 2003, as restated					<u>\$ 3,817,233</u>

Required Supplementary Information

Sample Community School District

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Local sources	\$ 5,424,129	462,351
Intermediate sources	9,129	-
State sources	8,905,680	7,989
Federal sources	256,433	195,324
Total receipts	14,595,371	665,664
Disbursements:		
Instruction	9,005,804	-
Support services	4,416,688	-
Non-instructional programs	54,000	688,758
Other expenditures	3,416,423	-
Total disbursements	16,892,915	688,758
Deficiency of receipts under disbursements	(2,297,544)	(23,094)
Other financing sources, net	3,620,435	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,322,891	(23,094)
Balances beginning of year	1,660,826	54,892
Balances end of year	\$ 2,983,717	31,798

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
5,886,480	5,571,585	5,571,585	314,895
9,129	12,000	12,000	(2,871)
8,913,669	9,481,641	9,722,927	(809,258)
451,757	468,000	468,000	(16,243)
15,261,035	15,533,226	15,774,512	(513,477)
9,005,804	8,724,699	8,850,277	(155,527)
4,416,688	4,151,201	4,151,201	(265,487)
742,758	775,004	775,004	32,246
3,416,423	5,752,989	5,752,989	2,336,566
17,581,673	19,403,893	19,529,471	1,947,798
(2,320,638)	(3,870,667)	(3,754,959)	1,434,321
3,620,435	3,210,000	3,210,000	410,435
1,299,797	(660,667)	(544,959)	1,844,756
1,715,718	1,039,221	1,039,221	676,497
3,015,515	378,554	494,262	2,521,253

Sample Community School District
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 14,595,371	326,623	14,921,994
Expenditures	16,892,915	172,440	17,065,355
Net	(2,297,544)	154,183	(2,143,361)
Other financing sources, net	3,620,435	(420,435)	3,200,000
Beginning fund balances	1,660,826	(1,221,778)	529,188
Ending fund balances	\$ 2,983,717	(1,488,030)	1,585,827

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 665,664	24,951	690,615
Expenses	688,758	(6,862)	681,896
Net	(23,094)	31,813	8,719
Beginning net assets	54,892	35,606	90,498
Ending net assets	\$ 31,798	67,419	99,217

See accompanying independent auditor's report.

Sample Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$125,578.

During the year ended June 30, 2004, disbursements in the instruction and support services functions exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

Sample Community School District

Other Supplementary Information

Sample Community School District

Sample Community School District

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2004

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 9,312	263,350	90,187	362,849
Receivables:				
Property tax:				
Delinquent	3,006	-	3,579	6,585
Succeeding year	275,000	-	231,000	506,000
Accounts	-	1,431	-	1,431
Accrued interest	-	1,477	-	1,477
Total assets	\$ 287,318	266,258	324,766	878,342
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	6,610	-	6,610
Salaries and benefits payable	-	178	-	178
Interfund payable	-	-	12,313	12,313
Deferred revenue:				
Succeeding year property tax	275,000	-	231,000	506,000
Other	18	-	1,508	1,526
Total liabilities	275,018	6,788	244,821	526,627
Fund equity:				
Unreserved fund balances	12,300	259,470	79,945	351,715
Total liabilities and fund equity	\$ 287,318	266,258	324,766	878,342

See accompanying independent auditor's report.

Schedule 2

Sample Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 274,606	-	190,855	465,461
Other	139	502,751	8,239	511,129
State sources	597	-	411	1,008
Total revenues	275,342	502,751	199,505	977,598
Expenditures:				
Current:				
Instruction:				
Regular instruction	54,679	-	-	54,679
Special instruction	6,620	-	-	6,620
Other instruction	-	460,991	-	460,991
Support services:				
Administration services	209,401	-	2,840	212,241
Operation and maintenance of plant services	6,589	-	-	6,589
Other expenditures:				
Facilities acquisition	-	-	3,112	3,112
Total expenditures	277,289	460,991	5,952	744,232
Excess (deficiency) of revenues over (under) expenditures	(1,947)	41,760	193,553	233,366
Other financing sources (uses):				
Operating transfers in	-	440	-	440
Operating transfers out	-	-	(68,198)	(68,198)
Total other financing sources (uses)	-	440	(68,198)	(67,758)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,947)	42,200	125,355	165,608
Fund balances beginning of year, as restated	14,247	217,270	(45,410)	186,107
Fund balances end of year	\$ 12,300	259,470	79,945	351,715

See accompanying independent auditor's report.

Sample Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Intra- Fund Transfers	Balance End of Year
Middle School Athletics	\$ 470	9,636	1,811	-	8,295
High School Athletics	28,877	22,575	34,124	20,640	37,968
Activity Pass	-	18,975	-	(18,975)	-
All School Play	917	532	475	-	974
Debate	1,000	-	-	-	1,000
Mock Trial	1,000	-	310	310	1,000
Speech	1,000	36	618	582	1,000
Chorus-High School	2,000	150	1,807	1,657	2,000
Vocal Music-High School	2,130	17,305	15,800	-	3,635
Music-High School Trip	1,806	16,089	13,406	461	4,950
Vocal Music-Middle School	1,222	11,913	12,846	-	289
Piano Fund Raiser	461	318	168	(461)	150
Instrumental Music-High School	2,500	40	2,034	1,994	2,500
Band Fund Raiser-High School	4,073	1,152	805	-	4,420
Band Fund Raiser-Middle School	(723)	100	-	-	(623)
Cheerleaders-High School	503	14,599	9,843	-	5,259
Cheerleaders-Middle School	23	2,401	2,249	-	175
Track Project	4,669	-	4,669	-	-
Volleyball	1,999	3,582	4,202	621	2,000
Volleyball Clinic	481	7,499	8,156	-	(176)
Soccer-Boys	1,251	2,170	2,028	(143)	1,250
Soccer-Girls	1,250	2,738	2,787	(47)	1,154
Cross Country	699	1,108	1,514	407	700
Tennis Club	414	-	9	-	405
Swimming	200	-	-	-	200
Basketball-Boys	2,500	4,917	2,716	(2,201)	2,500
Football	5,896	20,506	10,550	(11,387)	4,465
Football Club	-	431	409	-	22
Baseball	3,499	1,138	4,827	4,111	3,921
Baseball Project	2,063	43,875	43,077	-	2,861
Track-Boys	1,501	520	1,221	700	1,500
Tennis-Boys	500	473	853	370	490
Golf-Boys	1,501	2,579	2,976	396	1,500
Wrestling	2,000	2,785	2,024	(761)	2,000
Weight Room	1,000	-	421	421	1,000
Basketball-Girls	2,500	5,762	3,540	(2,222)	2,500
Softball	5,031	2,322	3,288	1,572	5,637
Softball Project	(1,530)	4,875	4,231	-	(886)

Schedule 3

Sample Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Intra- Fund Transfers	Balance End of Year
Track-Girls	1,500	956	987	31	1,500
Tennis-Girls	500	-	671	671	500
Golf-Girls	1,500	1,839	2,124	285	1,500
Student Pop-Middle School	914	9,800	10,509	-	205
German Club	307	777	793	-	291
Elementary 1 Field Trips	208	442	369	-	281
Elementary 2 Field Trips	-	-	-	-	-
Middle School Field Trips	3,089	6,123	6,154	-	3,058
Senior Trip	13,140	5,086	12,694	-	5,532
Art Club	287	2,171	2,458	-	-
Drill Team	1,000	-	968	968	1,000
Jump for Heart	595	-	219	-	376
French Club	2,923	14,763	15,164	-	2,522
Drill Team Camp	2,071	17,173	16,444	-	2,800
Multi-Occupational Cooperative	86	-	-	-	86
National Honor Society	1,351	345	328	-	1,368
Physical Patch-Middle School	40	20	-	-	60
Students for Educational Services	82	-	-	-	82
Students Against Drunk Driving	398	661	308	-	751
Spanish Club	1,238	3,626	2,999	-	1,865
Student Store-Middle School	951	4,694	5,327	-	318
Student Council-High School	2,231	3,642	4,575	-	1,298
Student Council-Middle School	1,498	43,677	32,472	-	12,703
Class of 2003	(441)	441	-	-	-
Class of 2004	1,272	-	1,313	-	(41)
Class of 2005	-	12,977	10,970	-	2,007
Wrestling Club	4,372	6,280	6,082	-	4,570
Fellowship of Christian Athletes	60	-	-	-	60
BB Lettermans Club	2,842	3,161	4,166	-	1,837
Girls Basketball Club	956	1,413	1,866	-	503
Letter Club	1,000	-	-	-	1,000
Biology Trip	265	2,992	3,250	-	7
Middle School Outdoor Center	533	-	-	-	533
Elementary 1 Book Fair	111	1,339	1,400	-	50
Elementary 2 Book Fair	907	4,820	4,972	-	755
Elementary 3 Book Fair	(301)	8,268	7,131	-	836
Annual Reserve	2,305	-	-	-	2,305
Annual-High School	5,956	4,818	5,607	-	5,167
Annual-Middle School	1,400	3,330	3,039	-	1,691

Sample Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Intra- Fund Transfers	Balance End of Year
Parking Sticker	(35)	-	-	35	-
Newspaper	172	2,386	3,096	-	(538)
Library Fines-High School	1,801	1,157	17	-	2,941
Library-Middle School	185	3,191	3,334	-	42
3-5 Teachers Fund	3,675	9,495	6,981	-	6,189
Elementary Resale	385	3,580	3,475	-	490
Kids Business Education	4,716	2,583	4,743	-	2,556
School Within School	456	-	-	-	456
Elementary 1 Teachers	2,042	7,819	6,224	-	3,637
Boxtops for Education	827	2,276	1,466	-	1,637
Elementary 1 Fund Raiser	16,223	11,626	6,820	-	21,029
Elementary 2 Fund Raiser	9,241	49,925	50,438	-	8,728
Elementary 3 Fund Raiser	35,753	20,418	9,244	(35)	46,892
Total	\$ 217,270	503,191	460,991	-	259,470

See accompanying independent auditor's report.

Schedule 4

Sample Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 69,576	129,060	154,293	44,343
Due from other governments	-	43,287	-	43,287
Total assets	\$ 69,576	172,347	154,293	87,630
Liabilities				
Accounts payable	\$ 2,730	63	2,730	63
Due to other governments	66,846	172,284	151,563	87,567
Total liabilities	\$ 69,576	172,347	154,293	87,630

See accompanying independent auditor's report.

Sample Community School District

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

Modified Accrual Basis				
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,185,018	3,825,914	3,685,689	3,494,917
Tuition	497,718	462,519	374,558	293,528
Other	1,016,612	844,043	950,362	719,497
Intermediate sources	20,837	14,076	16,159	-
State sources	8,908,181	8,671,395	7,619,059	7,316,048
Federal sources	293,628	258,059	276,268	243,179
Total	\$ 14,921,994	14,076,006	12,922,095	12,067,169
Expenditures:				
Instruction:				
Regular instruction	\$ 5,420,062	5,070,946	4,541,742	4,369,264
Special instruction	2,231,897	1,940,968	1,718,270	1,815,988
Other instruction	1,272,819	1,177,344	1,241,909	740,688
Support services:				
Student services	437,088	436,300	415,964	530,085
Instructional staff services	468,960	417,130	326,644	264,461
Administration services	1,833,811	1,535,112	1,615,800	1,219,321
Operation and maintenance of plant services	1,225,241	1,180,802	1,086,476	890,656
Transportation services	438,742	417,745	633,678	417,088
Central support services	-	-	-	3,320
Non-instructional programs	53,314	57,248	55,830	38,643
Other expenditures:				
Facilities acquisition	2,204,173	351,551	381,301	2,463,766
Long-term debt:				
Principal	534,507	565,000	455,694	299,783
Interest and other charges	357,176	362,467	385,988	504,576
AEA flowthrough	587,565	550,194	521,125	500,264
Total	\$ 17,065,355	14,062,807	13,380,421	14,057,903

See accompanying independent auditor's report.

Schedule 6

Sample Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expen- ditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY04	\$ 28,500
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	10,308
National School Lunch Program	10.555	FY04	180,214
Special Milk Program for Children	10.556	FY04	4,802
			<u>195,324</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY04	<u>146,154</u>
Vocational Education - Basic Grants to States	84.048	FY04	<u>11,366</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	<u>6,967</u>
Innovative Education Program Strategies (Title V Program)	84.298	FY04	<u>9,394</u>
Title IIA - Federal Teacher Quality Program	84.367	FY04	<u>88,420</u>
Iowa Public Television:			
Star Schools	84.203	FY04	<u>24,071</u>
Sample Area Education Agency:			
Special Education - Grants to States	84.027	FY04	<u>33,840</u>
Total			<u>\$ 544,036</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of
Sample Community School District:

We have audited the financial statements of Sample Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items IV-B-04 and IV-G-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Community School District and other parties to whom Sample Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Sample Community School District



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
Sample Community School District:

Compliance

We have audited the compliance of Sample Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Sample Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sample Community School District's management. Our responsibility is to express an opinion on Sample Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sample Community School District's compliance with those requirements.

In our opinion, Sample Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Sample Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sample Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Sample Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Community School District and other parties to whom Sample Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

Sample Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.556 – Special Milk Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample Community School District did not qualify as a low-risk auditee.

Sample Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

II-B-04 Disbursement Approval – For twelve of fifty transactions tested, there was no evidence of Board approval. For ten transactions, there was insufficient documentation to determine the date the Board President approved routine expenditures for advance payment in accordance with the District's policy.

Recommendation – The District should ensure that all expenditures are properly approved. For payments made in advance of Board meetings, the District should maintain documentation of the Board President's approval of claims for payment, such as the President's initials and date of approval. The District should also review the list of bills presented to the Board at regular meetings to ensure that all claims are included.

Response – We will ensure all expenditures are properly approved and maintain documentation of the approval of disbursements made in advance of Board approval by having the Board President initial and date the claims.

Conclusion – Response accepted.

Sample Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

CFDA Number 10.553: School Breakfast Program

CFDA Number 10.555: National School Lunch Program and

CFDA Number 10.556: Special Milk Program for Children

Federal Award Year: 2004

U.S. Department of Agriculture

Passed through the Iowa Department of Education

CFDA Number 84.010: Title J Grants to Local Educational Agencies

Federal Award Year: 2004

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

Sample Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Other Findings Related To Statutory Reporting:

IV-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget – Disbursements for the year ended June 30, 2004 exceeded the amended certified budget amounts in the instruction and support services functions. The District also exceeded its unspent authorized budget for the year ended June 30, 2004 by approximately \$43,000.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion – Response accepted.

IV-C-04 Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-F-03 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-04 Board Minutes – As previously noted, twelve transactions requiring Board approval had not been approved by the Board and an additional ten transactions had insufficient documentation they had been approved for payment by the Board President in advance of the Board meeting.

Certain minutes were not published as required by Chapter 279.35 of the Code of Iowa.

Recommendation – All expenditures should be approved by the Board, with sufficient documentation maintained to evidence proper approval. The Board Secretary should furnish a copy of the Board proceedings to be published within two weeks of each meeting.

Sample Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Response – All expenditures will be approved by the Board prior to payment and procedures have been revised to ensure this is adequately documented. Procedures have been revised to ensure the minutes are published as required.

Conclusion – Response accepted.

IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-04 Certified Annual Report – The Certified Annual Report was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-04 Deficit Balances – Several student activity accounts had deficit balances at June 30, 2004.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion – Response accepted.

IV-L-04 Revenue Bonds – The District has not established the Reserve Account required by the revenue bond resolution. In addition, the required monthly transfers from the Revenue Account to the Sinking Account were not made by the District.

Recommendation – The District should establish the Reserve Account in the amount required and make the monthly transfers to the Sinking Account as required by the bond resolution.

Response – We will establish a Reserve Account and begin making transfers to a Sinking Account.

Conclusion – Response accepted.

Sample Community School District

Staff

This audit was performed by:

Susie Q. Reviewer, CPA, Director
Terrance Tickmark, CPA, Senior Auditor
Margo Setter, CPA, Staff Auditor
Sadie Belle, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State